NOMINATIONS OF JAMES G. STEARNS AND JAMES W. FULLER

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

THE NOMINATIONS OF

JAMES G. STEARNS TO BE A DIRECTOR OF THE SECURITIES INVESTOR PROTECTION CORPORATION FOR A TERM EXPIRING DECEMBER 31, 1982 AND JAMES W. FULLER TO BE A DIRECTOR OF THE SECURITIES INVESTOR PROTECTION CORPORATION FOR A TERM EXPIRING DECEMBER 31, 1983

APRIL 20, 1982

Printed for the use of the
Committee on Banking, Housing, and Urban Affairs

[97-60]

U.S. GOVERNMENT PRINTING OFFICE
93-734 O WASHINGTON : 1982

5241-18

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

JAKE GARN, Utah, *Chairman*

JOHN TOWER, Texas
JOHN HEINZ, Pennsylvania
WILLIAM L. ARMSTRONG, Colorado
RICHARD G. LUGAR, Indiana
ALFONSE M. D'AMATO, New York
JOHN H. CHAFEE, Rhode Island
HARRISON "JACK" SCHMITT, New Mexico
NICHOLAS F. BRADY, New Jersey

DONALD W. RIEGLE, JR., Michigan
WILLIAM PROXMIRE, Wisconsin
ALAN CRANSTON, California
PAUL S. SARBANES, Maryland
CHRISTOPHER J. DODD, Connecticut
ALAN J. DIXON, Illinois
JIM SASSER, Tennessee

M. DANNY WALL, *Staff Director*
ALBERT C. EISENBERG, *Acting Minority Staff Director*
JAMES E. BOLAND, *Counsel*

NOMINATIONS OF JAMES G. STEARNS AND JAMES W. FULLER

TUESDAY, APRIL 20, 1982

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 3:30 p.m., in room 5302 of the Dirksen Senate Office Building; Senator Jake Garn (chairman of the committee) presiding.

Present: Senators Garn and Proxmire.

The CHAIRMAN. The committee will come to order.

Mr. Stearns, if you would like to come to the witness table, we'd be happy to hear from you at this time. Mr. Stearns, while you're up, maybe I can swear you.

[Witness sworn.]

The CHAIRMAN. Mr. Stearns, we're happy to have you before the committee today for your confirmation hearings and proceed. Do you have an opening statement that you wish to make?

Mr. STEARNS. I do have a short opening statement, Mr. Chairman. If you'd rather have it entered into the record or if you'd like to have me run through it, it's your pleasure.

The CHAIRMAN. I'll ask you the question, then, how long is it?

Mr. STEARNS. These are not known to really save too many souls, so perhaps I can just turn the statement into the record and submit to your questions.

The CHAIRMAN. We'll be happy to include your full statement in the record.

[The complete statement follows:]

STATEMENT OF JAMES G. STEARNS, NOMINEE TO BE DIRECTOR OF THE SECURITIES INVESTOR PROTECTION CORPORATION

Mr. STEARNS. Mr. Chairman and members of the committee. I am pleased to have this opportunity to appear before you in connection with my nomination as a director of the Securities Investor Protection Corporation.

As you know, the Securities Investor Protection Act of 1970 provides that the President shall, with the advice and consent of the Senate, appoint five of the seven directors of SIPC. The statute further requires that two of those five appointments shall be persons who are not associated with a broker or dealer or with a member of a national securities exchange, or who are not similarly associated with any self-regulatory organization or other securities indus-

try group. I can state at the outset that I have no affiliation with any securities firm or with any securities industry group. As I believe Congress intended, I bring no preconceptions or prejudices to this position. I am not biased toward the industry's views or toward those of the Federal regulators and, therefore, I meet the statutory test as a person nominated from the general public.

Congress wisely created a board of directors whose members comprise representatives of the Federal Reserve Board, the Department of the Treasury, the securities industry, and the general public. Such a deliberative body is well suited to ameliorate the profound impact of the failure of a financial institution on customers, the industry and, potentially, the economic welfare of our Nation.

In 1970 Congress set forth as a primary goal of the Securities Investor Protection Corporation the protection of individual investors from financial hardship in the event the securities firm with which they were doing business encountered such financial difficulties that it had to cease doing business. As a representative of the general public with 40 years experience in the private sector and a long record of public service at the local and State level, I will act to protect the financial integrity of individual investors, while also considering the impact of SIPC's activities on the general public.

A decade has passed since the establishment of SIPC, and there is still ample reason today to reaffirm SIPC's fundamental purpose. We have all read in the papers of the recent failure of a New York Stock Exchange member and of the increase in 1981 of the number of firms becoming the subject of liquidations under the act. Some of those liquidation proceedings were large, resulting in SIPC advancing more money to trustees last year than in any of the other years of SIPC's existence.

With the failure rate increasing, we have reason to assess SIPC's preparedness to discharge its responsibilities to Congress and the public. SIPC fulfills its mandate most effectively when investors are confident they are protected and that such protection will be fair.

Confidence, I believe, is built on two pillars: Public knowledge that protection exists and public assurance that protection will be rapidly and equitably administered. Since 1970 Congress and the securities industry have shared the belief that knowledge of the protections provided by SIPC can play an important role in promoting investor confidence.

SIPC members now are required to display the SIPC symbol. In addition, over the last three years a SIPC public information program comprised of speeches and interviews has garnered extensive media exposure. Such programs alone, however, cannot do the job in the absence of active industry support and a continuing commitment by SIPC to utilize current communications media and methods. Therefore, I will consider a number of ways to effectively promote knowledge of SIPC.

From my experience in the private sector, I know that businesses will fail in good times and in bad no matter what the state of confidence. When failures occur, SIPC must be prepared to protect individual investors from financial hardship. As Chairman, I will not allow small investors to witness their future financial security

crumble because their broker suddenly closes its doors. Although SIPC cannot insure customers against poor investment decisions, we will stand by them when a broker fails. As one of my first acts, I intend to re-evaluate current procedures and statutory requirements with a view toward speeding up the satisfaction of customer claims, and reducing the length of time during which some customers find their assets frozen. In so doing, we will strengthen the second pillar of confidence. When a broker fails, investors will be assured of rapid and equitable protection.

A SIPC task force is nearing the conclusion of its deliberations on this subject and recommendations for possible statutory reform wil be forthcoming. I look forward to working closely with the industry, the Securities and Exchange Commission and members of this committee as we consider our options in this area.

It is also important to note that all that SIPC has accomplished to date has been achieved without the expenditure of 1 penny of taxpayers' money. The SIPC program has been supported by the assessments which have been paid by the securities industry and by the interest earned on those funds. I believe this is a significant fact, and I pledge to exert all of my efforts to assure that the program continues without the need of relying on borrowing from the U.S. Treasury—which is authorized if it ever becomes necessary.

I have given you only a brief outline of my priorities and of how I intend to proceed. Although I am not now a securities expert, SIPC's Board of Directors includes industry representatives who have vast experience and knowledge of the securities industry and within SIPC's staff are attorneys and accountants who are unique in their experience and professional knowledge of broker-dealer liquidations. Like the chairman of the board of any private corporation, I look forward to working with them to accomplish the goals set forth by Congress in the 1970 act, and I intend to rely on and support the people in the front lines.

On major policy issues and on matters that may require statutory reform, I intend to continue in the spirit Congress displayed when it created SIPC in 1970. I will confer closely with the members of this committee as well as the industry, the self-regulatory organizations, and the SEC.

The CHAIRMAN. I once asked Chairman Volcker to summarize his statement. It took him longer to summarize, by a considerable amount of time, than if he had just read it.

In addition to including your statement in the record, I would also like to include in the record a statement by Senator Paul Laxalt in support of your nomination to be director of the Securities Investor Protection Corporation.

[The complete statement follows as though read:]

STATEMENT OF SENATOR PAUL LAXALT

Mr. LAXALT. Mr. Chairman, I strongly support the nomination of James G. Stearns for the position as a director of the Securities Investor Protection Corporation. I believe that he will make an excellent addition to this organization.

As you know, the Securities Investor Protection Corporation serves to protect the assets of investors held by securities firms.

The Corporation is run by seven directors; one designated by the Secretary of the Treasury, one designated by the Chairman of the Federal Reserve, and five appointed by the President. Of these last five, three must come from the industry, and two from the public. Given the complexity of the securities industry, I think it is important that the Board contains several experts. But given the participation of the general public in securities investing and the need to maintain the excellent sense of confidence the industry currently enjoys from the public, I believe it is equally important to appoint directors from outside the industry.

I believe Jim Stearns is just the man to fill this spot. He has demonstrated time and again his keen management skills and willingness to take on new and difficult tasks. He has a wide range of knowledge and experience. He shares the President's belief in the private sector and a strong securities industry as a means of strengthening our economy.

Jim has served in many management capacities at the Federal, State, and county levels. From 1972 to 1975, Jim served as the secretary of agriculture and services in California under Governor Reagan. This office had jurisdiction over the State agencies handling agriculture, consumer affairs, industrial relations, general services and veterans affairs, and State personnel administrative functions. Over 13,000 State employees worked under his supervision.

From 1967 until 1972, Jim was the director of the California State Department of Conservation, again appointed by Governor Reagan. In this capacity he was responsible for the divisions of forestry, mines and geology, oil and gas, and soil conservation. By law, as directors of the department of conservation, he also served on the California Air Resources Board, chaired the California Geothermal Resources Board, and was an ex-officio member of the boards of forestry, soil conservation, and mines and geology.

Currently, he is the Director of the Office of Alcohol Fuels in the Department of Energy, where he has served with distinction.

Clearly, James Stearns is a man of proven ability and capability. He has consistently taken on new and difficult assignments and has done an excellent job in each undertaking. I believe he will make an excellent public director of the Securities Investor Protection Corporation and I strongly support his nomination.

The CHAIRMAN. First, let me ask you some standard questions that we ask all nominees.

It's my understanding if you are confirmed you will resign from your present position as Director of the Office of Alcohol Fuels, Department of Energy; is that correct?

Mr. STEARNS. Yes.

The CHAIRMAN. You also agree not to be affiliated with or invest in any concern which would create even an appearance of conflict of interest with your position as Chairman of SIPC?

Mr. STEARNS. Yes, sir.

The CHAIRMAN. If you are confirmed, do you agree to appear before this or other congressional committees when requested?

Mr. STEARNS. Yes, sir.

The CHAIRMAN. Mr. Stearns, the principal purpose of the Securities Investor Protection Corporation, known as SIPC, is to retain

investor confidence in the capital formation process by assuring that cash and securities held in brokerage accounts would be protected from loss caused by failure of the securities firm. Do you believe that SIPC is successfully accomplishing that objective, and do you anticipate any major changes in the way SIPC operates if you are confirmed?

Mr. STEARNS. I think that up to this time, it mostly pretty well, in fact, very well has fulfilled the assignment that was given by the Congress. These are changing times, however, Senator, and I think we live in a very dynamic society, particularly as far as the financial markets are concerned. I think it would be a matter of continuous review to see that it is.

I understand that there has been a task force operating addressing some of the criticisms that have been made of SIPC and that it's prepared to submit a report to the Board suggesting some possible changes in the law to respond to some of those criticisms. I will look forward to considering those before the Board and coming back to this Congress with any recommendations for changes that the times seem to indicate.

The CHAIRMAN. In some recent liquidation proceedings, customers have experienced delays in obtaining access to securities held by a securities firm which fails. During any delay, of course, the customer bears the risk of decline in the market value of his securities. Do you believe that the Securities Investor Protection Act could be amended to enhance SIPC's ability to deal promptly with these types of claims from customers?

Mr. STEARNS. I am not knowledgeable enough on the specifics of what that would refer to, but anything that can be done to speed up the amount of time that the securities are back in the hands of their owners and going again, certainly should be done. I think that a certain amount of management changes can always be under consideration, and I think that that's the principal thing that the task force should address themselves to, is the ways that this could be speeded up.

I hesitate to be specific on this. I think there's an awful lot of legislation before this committee right now that deals with changing roles, so to speak, of our various financial institutions, and I think that SIPC's role needs to remain a relatively narrow one, and that anything that would smack of going over into the regulatory side, or anything I think probably I would have to look at very closely.

The CHAIRMAN. Are you familiar with an editorial commentary from Barron's yesterday? The headline is SIPC falls short or fails to give Wall Street what it bargained for.

Mr. STEARNS. Yes, I did read that.

The CHAIRMAN. One sentence that I certainly relate to, a most obvious drawback in the SIPC liquidation process is, like everything else to do with lawyers, it is paralyzingly slow and excruciatingly costly. You haven't been around this committee before, but I just can't resist any chance I get to talk about my attorney friends. They know I do it with love for them, and so on, but it's such a good quote I couldn't resist putting it into the record. In fact, I believe I'll put the whole editorial in the record.

[The document follows:]

[From Barron's Apr. 19, 1982]

SIPC Falls Short—Fails To Give Wall Street What It Bargained For

"John Muir clients . . . join Committee to demand SIPC timeliness and pass class action vs. SEC. [Call] 490-3056 anytime." (New York Times classified, Dec. 10, 1981).

The above small ad, first step in the formation of the Small Investors' Protection Committee chaired by an activist New Yorker, Dan James, is just another sign of the injuries inflicted by the Securities Investors Protection Corp. (SIPC), as presently constituted. Since the turn of the year, six brokerage houses have passed into liquidation and thus under the control of the non-profit membership corporation which was set up in 1970 by Federal legislation and financed by the securities industry. That compares with 10 in 1981, and only 24 in the whole 1976-80 period. A seventh, Lewellyn & Co., is about to be announced. All that adds up to considerable woe for a lot of individual clients, and ultimately for the financial markets themselves.

The year 1970 was the one in which brokerage business bigwigs, panicked by the wave of back-office failures, prevailed upon Congress to arrange for someone other than themselves to be left holding the bag in the event of catastrophe. Although financed by a member-firm levy, in an emergency SIPC can borrow up to $1 billion from the U.S. Treasury. Until that point, Wall Street for two centuries had boasted that it had never been the cause of client losses—unless, perhaps, those clients took Wall Street advice. Now the large firms could evade their responsibility for periodic rescues, but the probability of client loss had been institutionalized, a development temporarily obscured by the fact that from 1973 to 1981 no New York Stock Exchange member firm collapsed.

The most obvious drawback in the SIPC liquidation process is that like everything to do with lawyers, it is paralyzingly slow and excruciatingly costly. The New York law firm of Weil, Gotshal and Manges, whose Harvey R. Miller is trustee in the Muir liquidation, appears likely to receive over $2 million for its efforts, although Muir was probably worth only $4 million when it closed. And this fee will be paid in full before the creditors get to make their claims, which they have now been told cannot be met completely. Moreover, in a liquidation, all customers' accounts are frozen. Although Miller was appointed trustee on Aug. 16, some 30% of Muir's 17,000 accounts had not been released by Dec. 31, and 300 remained wholly or partly unthawed as of March 19. M. S. Wien & Co., the Jersey City over-the-counter house, went into liquidation on Sept. 10. Some 4372 of its 9639 accounts were still partly or completely frozen as of April 9. In the case of the 1973 liquidation of Weis Securities, Inc., some accounts were not freed for over seven years.

This was not merely frustrating for Muir's clients—many of whose accounts had already been transferred to other NYSE member firms, which had agreed to absorb Muir branch offices when the trustee recalled them—it was also potentially lethal. The markets broke badly during this perod, particularly in the new issues Muir had underwritten. Unable to sell, the clients watched hopelessly as hundreds of thousands of dollars melted from their portfolios. Those with options close to expiration saw them liquidated by the trustee on unfavorable terms; in some cases, clients' securities hypothecated by Muir were delivered out. It seems clear that the lawyers and bureaucrats liquidating Muir simply viewed time differently than their captives. SIPC's annual report congratulates itself on releasing 40% of Muir's accounts in 10 days. This claim is viewed with skepticism by those involved. But in any case, 10 days to a trader can be an eternity.

However, SIPC's real threat to the client is qualitatively different and far graver. It arises from what seems to be a fatal ambiguity in the leiglation: do the clients or the creditors come first? In the Muir case, Miller has opted for the creditors, acting ruthlessly to enhance the Muir estate at the clients' expense. This was immediately clear when, in still unexplained circumstances, he allowed Rooney, Pace Inc. to take over Muir's New York office and coerce the brokers into signing an agreement not to leave for 90 days by threatening that otherwise their accounts would remain frozen in SIPC for six months. Administrative convenience may partly explain the SIPC trustees' marked preference for designated successor firms. Brokers from Portland-based T. E. Slanker & Co. who moved to Paulson & Co. when it acquired the liquidated firm's office branch, report their accounts unfrozen before those of brokers who went elsewhere.

But it is worth noting that Miller tried to extract $50 from other firms for each account transferred out of Muir. He held a prolonged auction for Muir's Washington branch, eventually awarding it to Ferris & Co. Regardless of whether their brokers had joined Ferris, the clients then found their accounts released to the D.C.-based firm and held for a month, presumably to allow opportunity for seduction. The sole grounds for this was that Ferris and its equivalents elsewhere had offered the best

deal, in terms of liability assumed and overrides on future business guaranteed, to the Muir estate—whose principal and only sure beneficiary is the trustee himself.

A liquidation is never a pretty sight. But one that falsely claims to protect brokerage clients is hypocritical to boot. Even more extraordinary: many clients hold their securities with their brokers for safekeeping. In a liquidation, these too are frozen, although the customer is neither a creditor nor a debtor. One such clients in Florida saw his $625,000 net equity fall to $325,000 in six weeks' bad markets. This was then delivered to him. But almost immediately, he was forced by the trustee to return $125,000 worth of his own assets, on the grounds that this was in excess of the $500,000 which is the maximum SIPC guarantees brokerage clients. As a concession, he was allowed to choose which securities to return, valuing them as of Aug. 17, which meant what he sent back was worth a mere $30,000. But it has subsequently appreciated. At least 12 Muir clients, some of them larger, ran into this problem. The trustee is also trying to impound warrants on Muir underwritings issued to individuals but held in the firm. Litigation is afoot.

On Feb. 2, President Reagan nominated James G. Stearns, 60, to become chairman of SIPC. Stearns' current title is "Director, Office of Alcohol Fuels, Office of Assistant Secretary for Conservation and Renewable Energy, Department of Energy." He has spent most of his life in California government, including the posts Secretary of Agriculture and vice chairman of the Klamath River Compact Commission. Presumably, he is intended to bring a breath of fresh air.

Sterns' confirmation hearing before the Senate Banking Committee is scheduled for tomorrow. It is imperative that the powers-that-be seize this opportunity to repair the 1970 legislation. SIPC is preparing reform proposals, and there will be a temptation to defer to its technical expertise. But the difficulties now so starkly revealed differ only in degree from those of the small non-member firm bankruptcies of the mid-1970s. Yet these stimulated only minor streamling, enacted in 1978.

The outgoing SIPC chairman refers to those proposals as "fine tuning." This is not enough. The time has come for a complete review of SIPC in the context of the deregulation that is allegedly a key part of Reaganomics. At the worst, SIPC should be as fast-moving as the FDIC, its banking counterpart. At the best, it should be completely privatized, by extending the sort of "excess SIPC" insurance already offered by Aetna Life and Casualty Co. for lost securities. This, not coincidentally, was what *Barron's* proposed when legislation was first weighed twelve years ago.

The CHAIRMAN. The Securities Investor Protection Act empowered SIPC to assess members until the fund reached $150 million at a rate based on members' revenues. Since the fund has exceeded $150 million for the last several years, minimum annual assessments of $25 per firm have been charged. Do you believe that the $150 million cutoff point is appropriate, or should Congress consider increasing the size of the fund?

Mr. STEARNS. I think that's something that has to be under almost continuous review. I think the amount of exposure the fund has against its adequacy has to be measured continuously. I do know that in the last year some very heavy demands have been made on it, and it's my understanding that the Board did ask the Securities and Exchange Commission for permission to automatically begin to replenish the fund with assessments if it fell below $150 million, and I understand that that's in place and that the Securities and Exchange Commission can raise that amount if, in their judgment, it's inadequate.

I think that—I have been told, at least, that it should be one of the very first things that the new Board, when it's in place, should address itself to, is the adequacy of that fund, and I would expect to do that.

The CHAIRMAN. SIPC protects customers of broker dealers against loss where they have cash or securities in an account. Theoretically, funds in such an account are investment related so the customer cannot use a brokerage account as a substitute for an insured bank deposit. Are SEC and SIPC rules adequate to guard

against offering accounts which are functionally equivalent to interest-bearing demand deposits?

Mr. STEARNS. I'm not sure I heard all of that, Senator.

The CHAIRMAN. Let me repeat it for you. Theoretically, funds that are in an account are investment related, so the customer cannot use a brokerage account as a demand deposit. A checking account is an example, and an insured bank deposit. The question is, are SEC and SIPC rules adequate to guard against offering accounts that are, in effect, functionally—even though they are technically not, they function the same as an interest-bearing deposit that is insured.

Mr. STEARNS. I am not sure that I can answer that question at this time, on whether the rules are adequate. I know that it's going over into an area that has been—that has been thoroughly considered, so I would refer—I prefer to defer that until more knowledgeable people are on the Board to advise me on it. I'm afraid I am not able at this time to make an intelligent comment on it. It sounds scary, though.

The CHAIRMAN. Well, we could get into a long discussion, which I won't start now, about look-alikes to insured accounts, deposit accounts.

I have no further questions, Mr. Stearns, but I understand that Senator Proxmire does, and so if you wouldn't mind just remaining there for Senator Proxmire, if I can have Mr. Fuller come up and we can proceed with his statement and conflict questions.

[Witness sworn.]

The CHAIRMAN. Mr. Fuller, you are being nominated as the director of the Securities Investor Protection Corporation. This is a part-time position in which you would be expected to serve less than 60 days per year. Do you have any opening statement which you wish to make?

Mr. FULLER. Yes, I have an opening statement, Senator, but in the interest of time, I will do what Mr. Stearns did and put it in the record.

The CHAIRMAN. It will be included in the record in full.

[The complete statement follows as though read:]

STATEMENT OF JAMES W. FULLER, NOMINEE TO BE A DIRECTOR OF THE SECURITIES INVESTOR PROTECTION CORPORATION

Mr. FULLER. Mr. Chairman and members of your committee. Thank you for the opportunity of appearing before you today in connection with my nomination as an industry representative on the Board of Directors of the Securities Investor Protection Corporation.

In 1970, when SIPC was created, Congress, wisely, determined that SIPC's Board of Directors should be composed of persons from the public, the securities industry, and interested governmental units. Accordingly, SIPC's seven directors included two persons from the general public, a representative from the U.S. Treasury, a representative from the Federal Reserve Board, and three persons who are associated with, and representative of, different aspects of the securities industry.

As one who has been involved in the securities industry for 15 years in various capacities, including serving as senior vice presi-

dent of the New York Stock Exchange and various positions with securities firms, I will be pleased to have the opportunity of serving as an industry representative on SIPC's Board. I say this because I believe, that SIPC performs an important and vital role in our Nation's securities markets.

In 1975 Congress—and the SEC—brought a new era to the U.S. securities markets by unfixing commission rates that had been industry determined since 1792.

This new era began with a burst of intensified competition among existing firms for the investors' business and the emergence of many new firms offering the investor/consumers increased access to the securities market at substantially discounted commission rates. My current firm was one of those discount oriented firms. As could be expected in a new competitive environment, some of the existing firms and their managements could not adjust to the new economics of operating a brokerage firm. SIPC, in my opinion, played a vital role during this period in two ways. First, it provided assurances to investors that their investment assets—$500,000—and cash awaiting investment—$100,000—were protected in firms that were having difficulties. Second, it enabled new and emerging firms, such as Charles Schwab & Co., to have the same protection for its customers, advertise the fact, and therefore compete effectively for the investors' account and related securities transaction business.

Today, economic forces are driving many different types of financial service firms to integrate their service offerings and provide a wider range of products so as to better compete for the financial assets of individuals. Banks, insurance companies, mutual funds, brokerage firms, and others are all moving toward offering products that integrate savings, investment, and lending features in their financial accounts.

As this evolution accelerates, we hear the call for the level playing field, modification of banking, securities, and investment company's acts, and changes in financial regulation procedures. SIPC plays a vital role during this transition period. It assists securities firms to compete by providing one aspect of the level playing field, namely, protection of the investor/consumer assets.

I believe the next few years will be one of accelerated change in the financial service business and our securities markets. I further believe that the SIPC and the important protection which it affords to investors—who are, after all, the ultimate consumers in our Nation's securities market—will play a key role in these developments and related growth. As a person who has been involved with and committed to this industry for many years now, I will welcome the opportunity to help shape SIPC's role in this environment.

I believe that the perspectives which I have gained in the past, especially in my work with securities firms and with one of the major self-regulatory organizations, will be of great help to me as I undertake this effort. I am pleased to have the opportunity to serve in this capacity.

Thank you.

The CHAIRMAN. It is my understanding that if confirmed as the director of SIPC, you would agree to disqualify yourself from any specific action affecting Charles Schwab & Co. or any claim by

Charles Schwab against other securities firms which would involve SIPC in any way; is that correct?

Mr. FULLER. Yes, sir.

The CHAIRMAN. In the event you obtain a financial interest in other securities firms, do you also agree to disqualify yourself from decisions directly affecting those securities firms?

Mr. FULLER. Yes, sir.

The CHAIRMAN. If confirmed, do you agree to appear before this or other congressional committees when requested?

Mr. FULLER. Yes, sir.

The CHAIRMAN. Thank you, Mr. Fuller. At this time I will turn to Senator Proxmire to question either or both of these witnesses.

Senator PROXMIRE. Thank you very much, Mr. Chairman.

Mr. Stearns, I am concerned about your background and experience. It seems to me that this is a job that does require some knowledge and some track record. We don't hire football or basketball coaches who haven't coached before, and the track record—usually we insist they've got a winning record. You don't seem to have any at all. I don't want to be unfair, but what is your specific experience in the securities industry which you believe fits you to manage the insuring agency of that industry?

Mr. STEARNS. I have no specific experience in the securities industry itself, just in the banking community as a private businessman my whole life. My investments have been in other things, and I have a general knowledge of the way the market works and the way the business community works in the United States. I do not have any background in the securities industry.

Senator PROXMIRE. Well, don't you feel, sir, that we should have somebody in that job who has some background, some experience, some understanding? It is a very critical agency. It's grown out of an experience which has been painful and difficult for many investors. What kind of confidence do you think that the investing community will have if we appoint somebody to the job who is a fine man, I am sure you are, and a man of absolute integrity and good business experience, but who has had not specific experience in this particular area?

Mr. STEARNS. If I were to become a member of the board, Senator, they are extremely well qualified by their experience and backgrounds, and it is a seven-man board. I think the chairman's job largely is going to be one of management, and I certainly am going to learn as much as I can as fast as I can. I've been in many new situations in my life where I was, you might say, nearly as naked as I am at this moment, and I will get up to speed just as fast as I can.

I believe that I will be able, within a very short time, be able to meet the people in the industry, and I would expect that a year from now, that they would have confidence.

Senator PROXMIRE. Well, now, you're the only full-time member.

Mr. STEARNS. Yes, sir.

Senator PROXMIRE. I see some of the other people have good experience, but it would seem to me that the chairman, the head, the manager, the full-time operator, should have a background of some kind in this very complicated and critical industry.

Mr. STEARNS. Yes, I am aware of that. As I say, all I can tell you now is that I fully intend to draw on this knowledge and expertise both of the Board members and the staff and the securities industry, the self-regulated part of the industry. Certainly I would hope that I wouldn't make any moves that would, in any way, diminish their confidence in SIPC.

Senator PROXMIRE. Can you give us the historical background which impelled the Congress to enact the Security Investor Protection Corporation?

Mr. STEARNS. The background of it?

Senator PROXMIRE. Yes, sir.

Mr. STEARNS. It was designed to fill, apparently, a very needful gap about 11 years ago when the market pretty well bogged down and there were some failures, where individual investors were left completely out in the cold. The self-regulating part of the industry had covered part of the ground and insurance had covered part of the ground, but there was still a vast number of people, investors out across the country, that were being harmed and the Congress responded to that need and deliberately designed SIPC as a very narrowly oriented group to provide protection to those people who were not protected otherwise.

Senator PROXMIRE. Specifically, what problems did you feel developed that necessitated the development of the corporation?

Mr. STEARNS. I didn't hear.

Senator PROXMIRE. I wanted to ask you what specific problems, in your judgment, persuaded Congress to enact this legislation that created SIPC.

Mr. STEARNS. It was losses to individual investors who, for one reason or another, through business failures, thorugh either fraud or mismanagement or whatever, found that the securities that they invested and trusted to somebody had all flown away; and I think that that plus a certain amount—quite a flurry of failures there for a while, Congress felt that they had to do something to plug that gap.

Senator PROXMIRE. How about the so-called back office problems?

Mr. STEARNS. Yes, that, I understand, was a serious problem then. I understand that has been very well corrected now that the stock exchanges can handle vast volumes on a daily basis that were unheard of just 10 years ago.

Senator PROXMIRE. Let me ask you this: What are the standards that SIPC must consider in bringing a proceeding against a securities firm for liquidation?

Mr. STEARNS. What are the——

Senator PROXMIRE. Standards that SIPC must consider in bringing a proceeding against a securities firm for liquidation.

Mr. STEARNS. When it's determined by the—when this is brought to their attention that a firm is in some kind of trouble, they judge it strictly on the basis of whether or not that firm's customers are in jeopardy. If they do determine that they are in jeopardy, SIPC has to step in and protect them.

Senator PROXMIRE. Aren't there certain concrete, specific elements that have to be present to bring proceedings to a firm to liquidation?

Mr. STEARNS. When the firm falls below the reserves that are liquid according to Securities and Exchange Commission minimums or stock exchange minimums, and they are in deeper when they fall below that line, then it's time for them to step in and ask for the protection of the customers.

Senator PROXMIRE. Are you saying one would be insolvency; right?

Mr. STEARNS. Threatened insolvency.

Senator PROXMIRE. Two, compliance with financial responsibility rules?

Mr. STEARNS. Yes.

Senator PROXMIRE. How about failure to keep records to ascertain financial responsibility?

Mr. STEARNS. So I understand.

Senator PROXMIRE. Those are grounds for liquidation.

Mr. STEARNS. So I understand.

Senator PROXMIRE. Whether a receiver has been appointed to the firm.

Mr. STEARNS. Yes.

Senator PROXMIRE. Can you discuss the net capital rule of the SEC as it relates to the financial responsibility of a securities firm?

Mr. STEARNS. In general terms, they have to have the means to be able to respond to any calls on their customers at any time. I don't know exactly what that line is they draw. I know it's been strengthened over the years and is much more substantial than it was for a while.

Senator PROXMIRE. Can you relate this to the necessary liquidity ratio they have to maintain?

Mr. STEARNS. I don't know.

Senator PROXMIRE. In your judgment, Mr. Stearns, should SIPC be given broader power in the liquidation of firms, the power to merge firms in order to better protect the customer? Do you think that would be desirable?

Mr. STEARNS. From the knowledge I have at this moment, Senator, I think that the power to force mergers is not the same situation at all as it is with savings and loans and handling banks, and I would think that for the time being, at least, that while there might be some mechanism designed to bridge just a sharp cut-off and immediate liquidation, I haven't been shown yet that the power to arrange mergers would respond to the protection responsibility that Congress has given SIPC, so I would say generally I would have to be convinced that that was necessary.

Senator PROXMIRE. Will you describe the relationship that SIPC has the securities industry regulatory structure.

Mr. STEARNS. The stock exchanges, the National Association of Securities Dealers, the organizations in the industry itself.

Senator PROXMIRE. Which organizations in the industry?

Mr. STEARNS. The National Organization of Securities Dealers, the stock exchanges, and the Federal regulatory bodies, the Securities and Exchange Commission.

It fits in, I would say, probably below the Securities and Exchange Commission, as one of the ——

Senator PROXMIRE. What kind of a relationship would you, as the head SIPC, seek with each of these, with the SEC, with the NASB, with the stock exchanges?

Mr. STEARNS. I think it's a matter of each one doing their own part, in full concert and cooperation at all times. Their mission is to strengthen the industry and protect the investors and to retain the confidence of the American investing public in the entire system.

So, I think it would have to be a continuous cooperation, certainly not an adversary circumstance at any time.

Senator PROXMIRE. How about the examination reports and all the basic information that you need in order to judge the status of the securities firms?

Mr. STEARNS. I understand that the cooperation has been excellent in the past, that the Securities and Exchange Commission—this information comes from their own stock exchanges, from the Association of Securities Dealers, and from the securities and exchange people; and at the time any of them are alerted to the fact that a problem may be developing with some firm, SIPC is notified and they send their people in to determine what the situation is from SIPC's point of view.

Senator PROXMIRE. So, all the work of getting the details, the information on these securities firms, comes from outside of SIPC, it comes from these other agencies?

Mr. STEARNS. That's my understanding. It's a very small staff. There's, I think, about 30 people in the organization.

Senator PROXMIRE. So, your coordination and cooperation with the SEC and the NASB and the stock exchanges are critical?

Mr. STEARNS. Absolutely.

Senator PROXMIRE. Can you discuss the way SIPC treats customer claims after the 1978 amendments as to: First, margin accounts; second, securities collateralizing loans in banks; third, trustee purchases of securities on the market?

First, margin accounts.

Mr. STEARNS. I understand the 1978 changes made it possible for a person with a margin account to come in and pay it up, which he was not allowed to do before that. He could pay it up and get his securities back.

The second I didn't hear.

Senator PROXMIRE. The second was securities collateralizing loans at banks, the way SIPC treats them.

Mr. STEARNS. I know what you're referring to now, yes.

That allowed a bank to advance money to assist in these. Using those securities, I guess, is just another tool. Apparently it was necessary at the time, I'm not that knowledgeable on that particular—the technical parts of that, Senator.

Senator PROXMIRE. Can you tell me the way SIPC treats customer claims in connection with those amendments for trustee purchases of securities in the market?

Mr. STEARNS. Well, I'm afraid that that's—any comment I would make on that would be—I just don't know enough about it.

Senator PROXMIRE. Let me ask you this, can you discuss the responsibilities of SIPC in liquidating securities firms in terms of appointments of trustees, advisers, and court proceedings? I want to

know if you can discuss the responsibilities of SIPC in liquidating securities firms.

In terms of appointment of trustees, what connection do you have—your appointment of trustees—if you're going to liquidate a firm or advisers for court proceedings?

Mr. STEARNS. I understand that SIPC has been—in the past, has gone to the court and has designated the trustees. I presume that that's part of the law, and I imagine that there's a system for it.

I tell you, frankly, that since many nominees here lately have probably gotten a little too involved in the organizations they were nominated to before they were confirmed by the Senate, that I have been over to the SIPC offices but one time. I've been staying in the Department of Energy and doing the job that I have over there.

So, I'm aware, because of some of the newspaper articles that Senator Garn has referred to, that criticisms have been made of the way the trustees have been selected in the past. I would think that I would have to insist on a system where that selection process would be absolutely above reproach.

Senator PROXMIRE. One final question, can you discuss the procedures for bulk transfers and how such transfers is of any benefit to the customer?

Mr. STEARNS. I'm sorry, I didn't hear the first part of that.

Senator PROXMIRE. Can you discuss the procedures for bulk transfers and how those transfers may benefit the customer?

Mr. STEARNS. It would mostly be a matter of, these liquidation proceedings are disastrous enough, and anything—and these would be one—I presume, that would shorten the time that these could be back in the hands of the investor or the hands of another broker and live again. So, I presume that's what they're referring to.

Senator PROXMIRE. Well, Mr. Stearns, as I said before, I have great respect for you. I've heard from Mr. Laxalt and others that you're a very fine man. I'm sure you've been a successful businessman, and it's very important, too.

But I am concerned with your lack of knowledge or experience with SIPC, because it is a critical agency. I have the very strong conviction that when we appoint people to these positions it shouldn't take them a year, or even a month, to learn the job. They ought to hit the ground running, know what to do from the beginning.

We hire people for corporations and universities, with far less responsibility than the job you have here, and spend a tremendous amount of time making sure that they have the background and the training to do the job.

But in my judgment—and I don't want to be unfair— you don't seem to have the training for this job. I'm sure you can do many others very well. But I'm very concerned with your lack of background. I certainly don't want that to indicate that I have anything but the highest respect for your integrity and your solid experience as a businessman.

Thank you, Mr. Chairman.

The CHAIRMAN. Do you have any questions of Mr. Fuller?

Senator PROXMIRE. Mr. Fuller, you've worked for the stock exchange in the past. I have your employment record here, senior vice president of the Charles Schwab Corp.

Mr. FULLER. Yes, sir.

Senator PROXMIRE. Senior vice president, New York Stock Exchange; consulting manager, SRI International; vice president of Shields and Co.; sales for Dean Witter, Pacific Telephone and Telegraph Co.

You've written—was that "The Future of the Securities Industry"?

Mr. FULLER. Yes, sir, that was a study done by SRI in 1976-1977, Senator, for various clients, called a multiclient study.

Senator PROXMIRE. I think this is an excellent background. I think it's pertinent, it's appropriate. In my judgment, you can do the job—right from the very beginning.

I certainly enthusiastically support your position.

Again, I don't mean anything derogatory about you, Mr. Stearns, because I am sure you're a fine person. It's just that I feel—perhaps I'm unique in that respect, but I feel that we should appoint people who have relevant backgrounds to enable them to do the job from the beginning.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Let me just make one comment about that. I think Mr. Stearns has been very candid today in admitting that he did not have specific experience in this area. A lot of times witnesses try to convince us that they have something they do not have.

I would just make two comments. Mr. Fuller and Mr. Stearns do fit in different categories, Mr. Fuller being apointed one of three directors who is supposed to have experience and come from that sector.

Mr. Stearns is being appointed a director from the general public, among persons who are prohibited from having specific experience in any of those areas, at least in the last 2 years.

I think there is some difference there, too, that Mr. Fuller is coming directly from—it says, "Three sets of directors, who shall be selected from among persons who are associated with, and representative of different aspects of the securities industry. Not all of them should be from the same geograpical area. There is that technical and legal difference in the law, in the sectors they should be appointed from.

Further I would like to read the last paragraph of Senator Laxalt's statement in support of Mr. Sterns nomination—"Clearly, James Stearns is a man of proven ability and capability. He has consistently taken on new and difficult assignments. He's done an excellent job in each undertaking. I believe he will make an excellent director of Securities Investor Protection Corporation. I strongly support his nomination."

That is certainly in line with your testimony, being very candid in admitting that you have not had specific experience, but you have taken on other new assignments that you have completed well in the past. I certainly hope that that is the case, if, once again, you will be succcessful in taking on a new job that you have not

93-734 O—82——3

had a great deal of specific experience in and that you will be able to gain from the experiments of people like Mr. Fuller and others on the Board who have had that specific experience and are required by law to have it in order to be on the Board.

Mr. Fuller, let me just ask you one question that I asked Mr. Stearns. That was one about the investment-related account. Do you feel that SEC and SIPC rules are adequate to guard against accounts that are the functional equivalent of interest bearing insured demand deposits?

The reason that I had to ask that question, I saw you smile when I asked it to Mr. Stearns. I have to be cautious.

Mr. FULLER. My answer to that question is no, and they probably shouldn't either.

When I was at SRI, I coauthored the Merrill Lynch cash management account. I recently developed a like account for Charles Schwab & Co., which I'm sure, if you look at it, would fit in the category of things you are currently disturbed about.

It's my belief, Senator, that the economic forces in the financial services industry are moving so irreversibly that financial services companies are going to be competing more and more against each other, and breaking down the barriers of artificial regulation which exists today. Furthermore, as new technologies come along and become utilized I believe some of the issues in the laws that were passed in 1933 and 1934 will become increasingly obsolete. Technologies like the ability to have checks and utilize credit cards just didn't exist in 1933 and 1934 as they do today.

I believe that the Merrill Lynch cash management account, the Charles Schwab one account, and others that are being offered help make some SEC definitions more factual. I can't quote the law exactly, but the SEC definition of free credit balances—say something to the effect, that they are cash of balances in a brokerage account that investors have instant access to.

In point of fact, Senator, the investor really, technically, has not had instant access. He has had to go to the broker, ask for a check—the check may be written the next day and received in the mail several days later.

Now, with new technologies, use of a credit card and a check allows the investor to have instant access to the free credit balances in his account and/or his investment in the money market fund. So what we are doing really makes this definition a reality.

I think the technologies being utilized make these historic separations of classic deposit accounts, classic investment accounts, blur more and more and more. I think that's irreversible, absent some change in the law, or a more specific definition of the laws that prohibit it.

The CHAIRMAN. I couldn't agree with you more. I spent a year working on this problem. I don't disagree. I've termed it a revolution in the financial services industry. That's what S. 1720 and S. 1721 are all about, trying to wake up the traditional depository institutions.

I've said a million times—you may or may not have heard me say it—I understand exactly what you're saying, and I agree with it.

But the reason those traditional depository institutions are not competing is because this Government says they shall not, with ge-

ographical restrictions, interest rate ceilings, all sorts of things that they cannot do.

So, my objection is not the responding, providing new modern technology and new instruments that are attractive, like CMA's—it's not my intent to ever restrict that. But you've got to admit that you've got a tremendously unfair competitive advantage, favorable from your standpoint, unfair to the traditional despository institutions, because of Government.

Now, if we can remove some of those shackles and you're capable of whipping the socks off of them, and they go out of business, so be it. That's the free enterprise system.

But, boy, you've got a deal going for you right now. They're all tied down. They have to offer only 5½ percent interest because the Government says so. They can't cross State lines.

But Merrill Lynch, Schwab, Sears are going to kick all your tails and put you all out of business.

Sears will run its money market mutual funds as a mail-order house—maybe they're going to put them in the catalog. I don't know.

Texaco—fill up with Texaco Fire Chief, and get in the money market fund while your gassing up.

You'd better believe it. You're correct; the markets are changing dramatically.

But it is interjecting into banking. You can quote the technicalities of the law. You have an MBA. I'm surprised—you're talking like an attorney there. [Laughter.]

I'm surprised to see that you didn't have a J.D.

I agree. Legally and technically, you're right. But it looks like banking, and it smells like banking. And banks and thrifts are not allowed to compete.

I'm going to do everything I can to see that there's equal opportunity in these areas.

Mr. FULLER. Mr. Chairman—it's easy for financial industries to petition Congress when they don't feel they can compete. But many times it is laziness not disadvantage which is at work. I would predict that if you do nothing in the next 6 months or 9 months, you'll see the banks—you know, we've just been bought out by Bank of America, so I should be real careful what I say, I guess—but I believe in the next 6 to 9 months, if you don't move, that you will see the banks finally apply some of the ingenuity and creativity that have been applied in the securities industry. They will find ways also to come in and compete, irrespective of whether the law has changed. This could have been done years ago.

The CHAIRMAN. It isn't because I have not been trying to do something about it. I will continue to do so.

Senator Proxmire.

Senator PROXMIRE. Let me just say—I'd just like to say I have the text of the SIPC annual report. Of course, as you say, the Chairman, who is the Corporation's chief executive officer, and the Vice Chairman are named by the President from the public as Directors. There is no indication, as far as I know, that they can't have knowledge, experience, and education and training in the securities area.

The CHAIRMAN. No. I didn't say that.

Senator PROXMIRE. I know you didn't.

Here's a man, Mr. Stearns, who graduated from high school in 1940, had 2 years of college at Oregon State, did not receive a degree, has been a rancher all his life, and he's served in various governmental jobs: Director of Office of Alcohol Fuels, Department of Energy, most recently; secretary of agriculture in California—is that right?—director of conservation in California; Anderson Farming Service, a duster pilot; on the board of the Modoc board of supervisors.

I submit that, while I'm very impressed with what I've heard about Mr. Stearns, I just think that he is not qualified for this job.

The previous Chairman was Hugh Owens, who had a background in the SEC, dealing with securities in the most direct, constant way, day after day after day.

It seems to me to take a man with Mr. Stearns' background and put him in this job, which is, to a considerable extent, highly technical and is of the greatest importance, because the securities and capital markets of our country are so important, I think is unfortunate.

The CHAIRMAN. Thank you, Senator.

Do either of you gentlemen have any other comments that you would like to make before we close the hearing?

[No response.]

The CHAIRMAN. Thank you very much.

The committee is adjourned.

[Whereupon, at 4:10 p.m., the hearing was adjourned.]

[Biographical material on the nominees follows:]

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: STEARNS (LAST) JAMES (FIRST) GERRY (OTHER)

Position to which nominated: Member - SIPC Date of nomination: February 1, 1982

Date of birth: 29 (DAY) Jan. (MONTH) 1922 (YEAR) Place of birth: Lapine, Oregon

Marital status: Married Full name of spouse: June Elizabeth Speer

Name and ages of children: Robert S. - 32
Katherine I. - 27
Gerry M. - 25

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Lapine High School	1936-40	Grad	1940
Oregon State College	1940-42	None	

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

None

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
Canby Cross Lodge AF&M	None	1962 -
Ben Ali Temple AONMS	"	1972 -
Royal Order of Jesters Ct. 119	"	1974 - Present
BPOE, Klamath Falls, Ore.	"	1960 - 1967

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

Modoc Board of Supervisors - Alturas, CA (Elected Board Member)	1951-67
Anderson Flying Service, Tulelake, CA (Duster Pilot)	1956-67
Director of Conservation, State of CA (Appointed by Governor)	1967-72
Secretary, Agriculture & Services Agency, State of CA (Appointed by Governor)	1972-75
Director, Office of Alcohol Fuels, Dept. of Energy (Appointed by President)	July 1981 to Present
Self employed rancher	Entire life

MILITARY:

Service - USAAC - Primary Flight Instructor	1942-1945

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

In addition to previous page:

Member - California Klamath River Commission

Member - California Air Resources Board

Chairman - California Geothermal Resources Board and various others connected to above employment.

Published writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

None

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

1967-75 Member - Modoc County Republican Central Committee

1976 Delegate - Republican National Convention - Kansas City

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

To the best of my knowledge-----

Citizens for Reagan - 1976 - about $1000

Qualifications: State fully your qualifications to serve in the position to which you have been named. (attach sheet)

Over thirty years management and experience gained as a government official at the Federal, State and local level and as a self-employed businessman.

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

Yes

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

No

3. Has anybody made you a commitment to a job after you leave government?

No

4. Do you expect to serve the full term for which you have been appointed?

Yes

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

None

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

I am aware of no conflicts of interest.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

IRS audit in 1977 which resulted in a letter from the IRS stating "all returns through 1976 accepted as filed" - letter on file at the office of Molatore, Gerbert & Rusth at Tulelake, California.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: FULLER (LAST) JAMES (FIRST) WILLIAM (OTHER)

Position to which nominated: Director — Securities Investor Protection Corporation Date of nomination: February 9, 1982

Date of birth: March (MONTH) 4 (DAY) 1940 (YEAR) Place of birth: Rochester, Indiana

Marital status: Married Full name of spouse: Mary Falvey Fuller

Name and ages of children: Kirsten, 11 years
Glen, 9 years

Education:

Institution	Dates attended	Degrees received	Dates of degrees
California State University	1966/1967	MBA	Sept. 1967
San Jose State University	1960/1962	B.S.	June 1962
San Bernardino Valley College	1958/1960	A.A.	June 1960
San Bernardino High School	1955-1958	Academic	June 1958

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

Student Body President — San Bernardino Valley College; Outstanding Business Student — California State University, Beta Gamma Sigma Honorary Fraternity

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
Commonwealth Club		1960 — present
World Affairs Council		1962 — present
Newcomen Society		Present
English Speaking Union		Present

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

Senior Vice President, Charles Schwab & Co., Inc. - Finance

San Francisco, CA — 1981 to present

Senior Vice President, New York Stock Exchange - Marketing

New York, NY — 1977 to 1981

Manager, SRI International - Finance, Menlo Park, CA — 1974 to 1977

Vice President, Shields & Co, San Francisco, CA — 1972 to 1974

Sales, Dean Witter, San Francisco, CA — 1967 to 1972

Pacific Telephone and Telegraph Company - Traffic,

San Francisco, CA — 1962 to 1967

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

Director - Reagan Business Advisory Panel — 1980

Director of Marketing - White House Preservation Fund

Published writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

Author - The Future of the Securities Industry, SRI International, 1976

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Member Republican National Committee

Vice Chairman New York, Reagan for President Finance Committee

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

$500 Reagan for President -- 1980

Qualifications: State fully your qualifications to serve in the position to which you have been named.
(attach sheet)

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

No -- Not required for position

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

N/A

3. Has anybody made you a commitment to a job after you leave government?

No

4. Do you expect to serve the full term for which you have been appointed?

Yes

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None that I know of

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

Investment in Charles Schwab Financial Services -- or options for Charles Schwab & Co., Inc. Stock

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

Disqualify myself from voting or Issue

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

None

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

QUALIFICATIONS

My qualifications for this position include:

- 13 years of industry experience in all facets of securities and brokerage management, sales, and operations.
- 4 years a senior officer of the New York Stock Exchange where I became intimately familiar with the problems that firms get into and the impact these problems can have on customers and investors. This includes understanding of early warning signs.
- Assignments at SRI International which included authorship of a study which analyzed and predicted The Futures of the Securities Industry. This study predicted many of the forces and interrelationships in an ever changing industry. Many of these changes are occuring today.
- Many other projects at SRI which analyzed the operational opportunities and pitfalls of the brokerage business.
- Current employment at Charles Schwab Corporation in a senior line management position.